

# BULLETIN No. 47

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN  
DEPARTMENT OF AGRICULTURE

## Cheaper Money FOR Saskatchewan Farmers

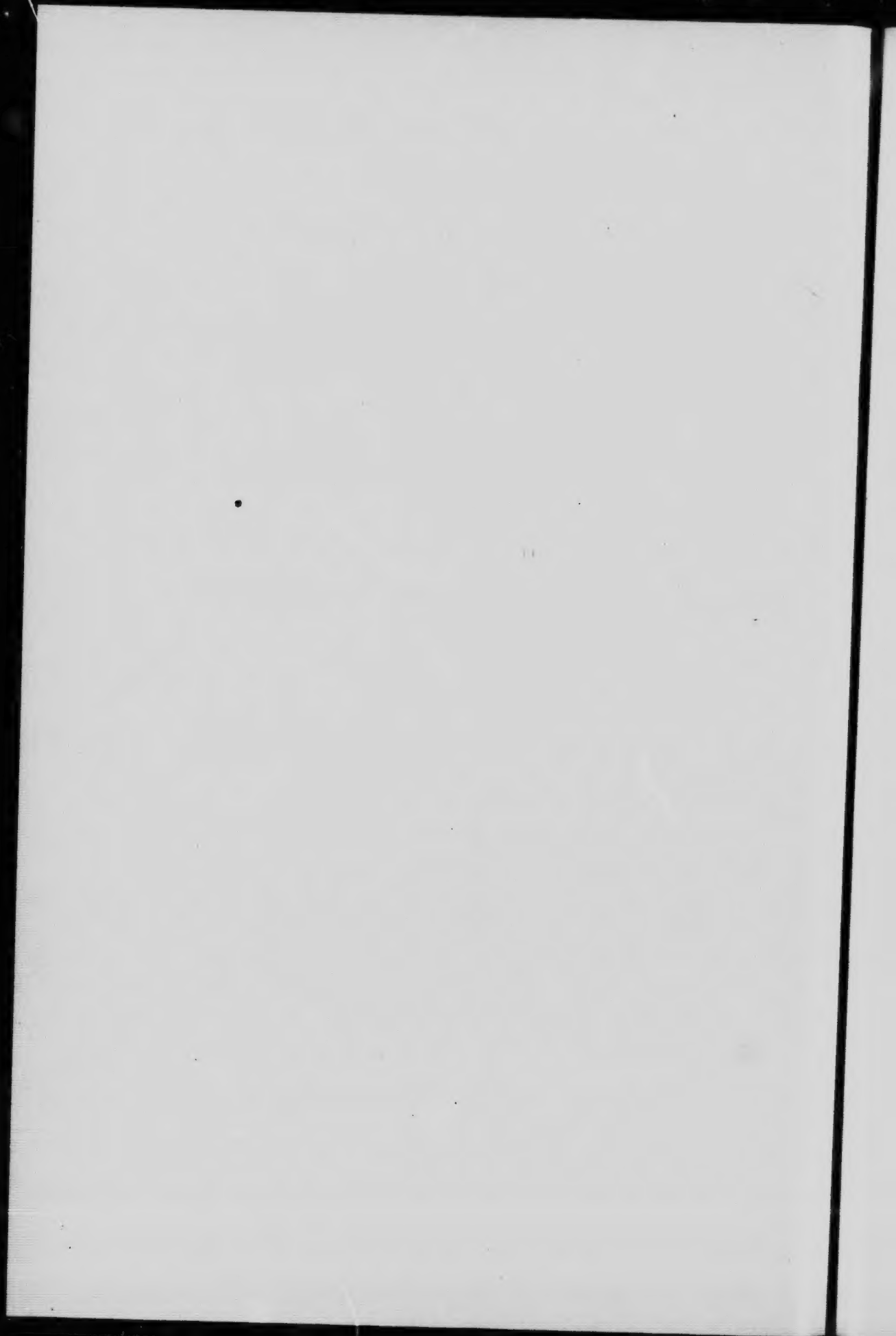
PUBLISHED BY DIRECTION OF THE HON. W. R. MOTHERWELL,  
MINISTER OF AGRICULTURE.



REGINA:  
J. W. REID, King's Printer  
1917



NOV 18 1917



# CHEAPER MONEY FOR SASKATCHEWAN FARMERS

*A Brief Statement regarding The Saskatchewan Farm Loans Act.*

Cheaper money for our farmers is a very important matter, and the claim of the farmers that they should be able to borrow money at a lower cost was one which the Saskatchewan Government early recognised as incontestable. It will be remembered that as long ago as 1913 the Government appointed a Commission to examine into ways and means of establishing a better system of agricultural credit, or, in other words, "cheaper money" for farmers. After the Commission reported to the Government a plan was devised for loaning money to farmers. It has since, however, been found impossible to put the original scheme into operation owing to altered monetary conditions arising out of the war, and other causes. The Farm Loans Act of 1917, therefore, takes the place of the former legislation.

## REMOVING THE HANDICAPS.

The reports of the Grain Markets Commission and the Rural Credits Commission indicated that, in comparison with farmers in other grain producing countries, the Saskatchewan grain growers are handicapped in the producing and marketing of their grain crops by a number of natural and artificial disadvantages. It is also true, however, that we have certain natural advantages, such as a fertile soil easily brought under cultivation and that many of the artificial handicaps are removable. The profit from growing grain is measured by the difference between the cost of production and the selling price. Some items which enter into the cost of production are the cost of machinery and other equipment, and the cost of money and labour; and these, as well as the cost of the farmer's living are fixed by conditions of institutions over which the farmer has had no control. Farmers by acting co-operatively have done many things to benefit their condition, and what has been done is only the beginning of many things that they will yet be able to accomplish. The problem of supplying cheaper money, however, is one which, for the present at least, appears to be beyond the ability of farmers' organisations to solve without Government assistance and for the purpose of rendering this necessary assistance The Saskatchewan Farm Loans Act was passed by the Saskatchewan Legislature.

## SASKATCHEWAN FARM LOAN BOARD.

To provide long term credits the new Act establishes what will be known as the Saskatchewan Farm Loan Board. This Board consists of one commissioner and two members. The commissioner, who

will be the manager of the institution, is a salaried official. The other two will receive no salary, but will be entitled to a per diem allowance, together with such other allowances as may be necessary to cover expenses when engaged upon the business of the Board. Precautions have been taken to keep the Board entirely separate and apart from politics, and to this end *no loans will be made until after the provincial elections are held*. The Board will be an independent body, such as the Local Government Board.

Power is given to the Board to lend money to farmers on the security of first mortgages on their farm lands, and to do all things necessary or incidental to the business of lending money on farm property.

#### NATURE OF LOANS.

All loans will be made for a term of thirty years and, as stated, upon the security of a first mortgage on the farm. No loan, however, will be made for an amount in excess of 50 per cent. of the valuation of the property offered as security. Whilst the loan period has been fixed at thirty years, provision is made in the law that the borrower may pay off the loan at any previous time, and may make a payment larger than the payment next due if so desired. The thirty year period was fixed merely to facilitate the handling of the scheme. It will be seen, however, that the thirty year term makes no great difference to the borrower, as he can pay off his indebtedness at any time prior to the due date whenever he is in a position to do so.

It is stipulated that the loans to be made must be expended for productive or improvement purposes or on the payment of liabilities previously incurred in these directions. The Board may, however, in cases which meet with their special approval make loans for the purchase of land for agricultural purposes.

#### NOT MORE DEBT BUT EASIER HANDLING OF OBLIGATIONS AND MORE DEVELOPMENT.

From the foregoing it will be noted that The Farm Loan Act is not so much designed to encourage farmers to mortgage their holdings as to assist them in spreading out their present burdens so that they can be more easily borne. The Act is also intended to materially assist new settlers in cases where it is found difficult to get a start on the land without raising a loan on the security of the land; and a long term loan will be found much less burdensome to the pioneer than the usual short term loan with its higher interest rate and many incidentals. At the same time, the thirty year loan provided for in the Act can, at the end of any year, be converted into a short term loan at the pleasure of the borrower and without the exaction of any bonus or other charge for such opportunity of reducing or paying off the mortgage debt before maturity.

## THE SYSTEM EXPLAINED.

All loans will be made on an amortisation basis. That is to say, the annual payments will include interest and a small percentage of the principal, thus enabling the whole liability to be discharged by a series of small annual payments. The following table will illustrate how this plan works out, instancing as an example, a loan of \$1,000 for thirty years. This amount is taken merely as an illustration. The loan may be more than this or more according to the farmer's requirements and the security he offers for the loan.

## SPECIMEN AMORTISATION TABLE.

BASED ON A  $6\frac{1}{2}$  PER CENT. INTEREST RATE

Thirty Equal annual payments of \$76.58. Principal, \$1,000.

Years	Interest Payments	Principal Payments	Total Annual Payments	Outstanding Principal
1.....	\$65.00	\$11.58	\$76.58	\$988.42
2.....	64.25	12.33	76.58	976.09
3.....	63.45	13.13	76.58	962.96
4.....	62.60	13.98	76.58	948.98
5.....	61.69	14.89	76.58	934.09
6.....	60.72	15.86	76.58	918.23
7.....	59.69	16.89	76.58	901.34
8.....	58.59	17.99	76.58	883.35
9.....	57.42	19.16	76.58	864.19
10.....	56.17	20.41	76.58	843.78
11.....	54.85	21.73	76.58	822.05
12.....	53.44	23.14	76.58	798.91
13.....	51.93	24.65	76.58	774.26
14.....	50.33	26.25	76.58	748.01
15.....	48.62	27.96	76.58	720.05
16.....	46.80	29.78	76.58	690.27
17.....	44.87	31.71	76.58	658.56
18.....	42.81	33.77	76.58	624.79
19.....	40.61	35.97	76.58	588.82
20.....	38.27	38.31	76.58	550.51
21.....	35.79	40.79	76.58	509.72
22.....	33.13	43.45	76.58	466.27
23.....	30.31	46.27	76.58	420.00
24.....	27.30	49.28	76.58	370.72
25.....	24.10	52.48	76.58	318.24
26.....	20.69	55.89	76.58	262.35
27.....	17.05	59.53	76.58	202.82
28.....	13.18	63.40	76.58	139.42
29.....	9.06	67.52	76.58	71.90
30.....	4.68	71.90	76.58	

Taking an *assumed interest rate* of six and one-half per cent. the borrower, it will be seen, would need to make thirty payments of \$76.58 each to pay off the loan.

A table similar to the foregoing will be endorsed on the copy of the mortgage which will be given to the borrower, who will thus know exactly where he stands at any time during the period of the loan.

### WHY DEBT BECOMES A BURDEN.

Much of the anxiety occasioned to borrowers when they lose a crop or are short of money is due *not to the total amount of their debts, but rather to the amount of their debts which is due and past due and immediately payable.* The size of the annual payment of a mortgage loan no less than the rate of interest is, therefore, a vital consideration.

### WHEREIN THE NEW SYSTEM HELPS.

Let us consider the case of a farmer on a quarter section with say 80-100 acres under cultivation. The money he has borrowed on his farm will probably bear 8 per cent. interest, although it may be 9 per cent. or higher. The usual terms of repayment of a loan of \$1,000 are \$50 of principal each year for four years and the balance at the end of the fifth year. When he signs the mortgage five years seems to be a long time and the final payment far away. A big crop is expected—that bumper crop which was due last year and the year before, but is going to come next year for sure and pay off the mortgage and all other debts. It will come *occasionally*, but usually the fifth pay day when the mortgage is due to be paid comes without the means to meet it. But whether the big crop comes or not every fall brings pay day and the mortgage company's notice reminding the borrower that \$114 or more is due—\$64 for interest and \$50 to reduce the principal. In other words, in each year for four years he will be asked to pay \$114, or more if he lets his principal become in arrears, and \$800 on the fifth, while under the Saskatchewan Government system he will have to pay on the same sized loan (provided the rate of interest does not exceed  $6\frac{1}{2}$  per cent.) *for both principal and interest, not more than \$76.58 per annum, which is actually less than his present interest payment,* and at the end of thirty years the amount of the original loan will have been fully repaid. Simply one payment each year of \$76.58.

Now under the proposed amortisation plan if the grain crop should be below the average there should be no need for borrowers to be in difficulties in regard to their loans. Revenue from the milk of a few cows shipped to the nearest creamery, a cheque for a fat steer or a few fat hogs, or even the proceeds from a good poultry yard would at present prices provide for the annual instalment on the loan and leave a balance for living expenses.

### PAYMENTS MUST BE MADE PROMPTLY.

But while it is true that the payments are small and that they should not prove embarrassing to the borrower, it is equally true that the success of the undertaking depends upon prompt payment of instalments as they mature. This fact must be clearly understood. *The scheme is essentially a business proposition which demands business methods.* All obligations must be promptly met, otherwise the organisation will break down in a very short time.



## THE RATE OF INTEREST.

The rate of interest has not, and cannot be definitely fixed owing to the fluctuations which occur from time to time in the money markets. The loans, however, will be advanced subject only to overhead charges of administration. There will be no attempt made by the Board to earn a profit. Men who have studied conditions hold the view that interest rates are probably as high now as they are likely to go. Taking, therefore, the present high rate, and if it is possible to loan money at even  $6\frac{1}{2}$  per cent., the aggregate saving to the farmers of Saskatchewan will be enormous. It has been estimated that if our farmers could borrow money for 2 per cent. less than the rates they are now paying (and this ought to be possible under the new scheme) they could, by making their payments on the amortisation plan, *discharge their total indebtedness* in about twenty-four years' time, **BY SIMPLY CONTINUING TO PAY WHAT THEY ARE NOW PAYING FOR INTEREST.**

It is thought that the Board should be able to operate at a cost of about 1 per cent. With a return to easier financial conditions the interest rates will, of course, be lower and farmers will, therefore, be able to borrow more favourably. In any event farmers are assured that they will no longer be obliged to carry as heavy a load of interest as in the past.

## A GOOD FIELD FOR INVESTMENT.

To make the loans it is intended that the Provincial Treasurer shall borrow the money and turn it over to the Board at cost, taking as security the mortgages given by the borrowers. Bonds will be issued, known as "Saskatchewan Farm Loan Bonds," which will be backed by the security of the property of the borrowers and *reinforced by a provincial guarantee*. In other words, the collective credit of all the people of Saskatchewan will be back of the enterprise.

One of the merits of the scheme is that under the above arrangement it will help to keep Saskatchewan money in use at home, as the loan bonds may be bought by local investors, and payments to local men for interest on local money would lead to a larger development of Saskatchewan.

## SUCCESS DEPENDS UPON FARMERS.

The whole scheme is a big one and cannot fail to be of incalculable benefit and assistance to Saskatchewan farmers, and as it is one step in reducing their handicaps and lowering the cost of agricultural production there can be no doubt that they will make the undertaking a complete and unqualified success. The Government is providing a sound method of loaning, and to this enterprise in the field of credit it now rests with our farmers to show that loyalty which they have shown in other directions where the principle of co-operation has been applied.